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May 4, 2010

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **FRIENDS RESEARCH INSTITUTE, INC. CONTRACTS REVIEW – A  
DEPARTMENT OF PUBLIC HEALTH HIV/AIDS PREVENTION  
SERVICES PROVIDER**

We completed a fiscal review of Friends Research Institute, Inc. (Friends or Agency), a Department of Public Health (DPH) HIV/AIDS prevention services provider.

**Background**

The DPH's Office of AIDS Programs and Policy (OAPP) contracts with Friends to provide HIV/AIDS health education/risk reduction and comprehensive risk counseling services. Friends' office is located in the Third District.

At the time of our review, the Agency had two cost-reimbursement contracts with OAPP. DPH paid Friends \$563,117 in OAPP funds from February 2008 to December 2008.

**Purpose/Methodology**

The purpose of our review was to determine whether Friends appropriately spent funds in accordance with the County contract. We also evaluated the adequacy of Friends' accounting records, internal controls, and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White Comprehensive AIDS Resource Emergency Act.

### **Results of Review**

The Agency appropriately recorded and deposited cash receipts timely in the Agency's bank account and the Agency's Cost Reports reconciled to the Agency's financial accounting records. However, the Agency did not comply with other County contract requirements. For example, Friends:

- Did not have a written Cost Allocation Plan.
- Charged OAPP \$722 for expenditures that the Agency incurred after the contract period.
- Charged OAPP for payroll expenditures based on estimates not actual time spent performing OAPP related activities.

### **Review of Report**

We discussed our report with Friends and OAPP on January 20, 2010. In their attached response, Friends agreed with our findings and recommendations. However, Friends indicated that recording actual hours worked by program is very time consuming and not cost effective. OAPP will work with the Agency to ensure payroll is billed based on actual time spent as required.

We thank Friends for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer  
Jonathan E. Fielding, Director, Department of Public Health  
Patrick F. Bogan, Executive Director, Friends Research Institute, Inc.  
Public Information Office  
Audit Committee

**HIV/AIDS PREVENTION SERVICES  
FRIENDS RESEARCH INSTITUTE, INC.  
FISCAL YEAR 2008-09**

**CASH/REVENUE**

**Objective**

Determine whether cash receipts and revenue are properly recorded in Friends Research Institute, Inc.'s (Friends or Agency) financial records and deposited timely into the Agency's bank account. Determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed Agency personnel and reviewed their financial records. We also reviewed the Agency's December 2008 bank reconciliations for three bank accounts.

**Results**

Friends appropriately recorded and deposited Office of AIDS Programs and Policy's (OAPP) payments timely into the Agency's bank account and maintained adequate controls over petty cash. However, the Agency needs to improve controls over cash and liquid assets. Specifically, bank reconciliations for two operating bank accounts showed beginning and ending cash amounts that did not reconcile to the cash amount in the accounting records. In addition, Friends' management did not document their review and approval of the bank reconciliations.

**Recommendation**

1. **Friends management ensure bank reconciliations are accurately prepared and are reviewed and approved by management.**

**COST ALLOCATION PLAN**

**Objective**

Determine whether the Agency's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

**Verification**

We reviewed a sample of shared expenditures incurred by the Agency between April 2008 and December 2008 to ensure that the expenditures were properly allocated to the OAPP program.

**Results**

Friends did not maintain documentation to support the basis used to allocate rent, leased equipment, telephone, utilities and site maintenance and repair expenditures charged to the OAPP program. Friends needs to establish a Cost Allocation Plan to allocate shared costs in accordance with Office of Management and Budget (OMB) Circular A-122.

**Recommendations****Friends management:**

2. Use OMB Circular A-122 to develop a detailed and equitable Cost Allocation Plan.
3. Maintain documentation to support expenditure allocations.

**EXPENDITURES****Objective**

Determine whether program-related expenditures are allowable under the County contract, properly documented and accurately billed to the program.

**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 26 non-payroll expenditure transactions charged to OAPP from April 2008 to December 2008 totaling \$40,853.

**Results**

The Agency did not always maintain appropriate documentation to support program expenditures. The Agency also charged OAPP \$6,387 for unallowable costs. Specifically, Friends billed OAPP for:

- Unsupported credit card payments totaling \$3,260.
- Gift cards distributed totaling \$2,405 to clients as incentives. However, the Agency did not identify individuals that received the gift cards.
- An equipment lease totaling \$722 that the Agency incurred after the contract term.

Subsequent to our exit conference, Friends provided additional documentation to support the \$5,665 (\$3,260 + \$2,405) of the questioned costs.

**Recommendations**

Friends management:

4. Repay DPH \$722.
5. Ensure that adequate supporting documentation is maintained for all OAPP expenditures.

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether the Agency's fixed assets and equipment purchases made with OAPP funds are used for the OAPP program and are safeguarded.

We did not perform test work in this section, as Friends did not use OAPP funds to purchase fixed assets.

**Recommendation**

None.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures are appropriately charged to the OAPP program. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced payroll expenditures totaling \$41,896 for December 2008 to payroll records and time reports. We also reviewed nine personnel files of staff assigned to the OAPP program.

**Results**

The Agency billed payroll based on budgeted full time positions not actual time spent by employees performing OAPP related activities as required by the County contract. In addition, Friends did not require their staff to report actual hours worked on the OAPP program on their timecards. As a result, we could not verify the appropriateness of the payroll expenditures billed to OAPP.

**Recommendations**

Friends management ensure:

6. Payroll billings are based on actual hours spent by employees performing OAPP related activities.
7. Employees' time records indicate the total hours worked on a daily basis by program.

**COST REPORTS**

**Objective**

Determine whether the Agency's Cost Reports reconcile to the Agency's financial accounting records.

**Verification**

We traced the Agency's general ledger to the Agency's Cost Reports for the period ended December 2008.

**Results**

Friends' Cost Reports reconciled to their accounting records.

**Recommendation**

None.



**Friends Research Institute, Inc.**

**Research • Grants Administration • Education • Treatment**

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March 11, 2010

Ms. Wendy Watanabe  
County of Los Angeles  
Department of Auditor – Controller  
Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 525  
Los Angeles, California 90012-3873

*Subject: Friends Research Institute – A Department of Public Health  
HIB/AIDS Prevention Services Provider Fiscal Audit Fiscal 2008-2009*

To Ms. Wendy Watanabe:

This letter is in response to the letter from the Department of Auditors –  
Controller dated February, 2010/

Recommendation #1 has been put into affect. Friends management ensures  
that the bank reconciliation are accurately prepared and are received and  
approved by management.


Recommendations #2-3 Friends had a written allocation plan but  
apparently the West Coast office did not have a copy. We will use the  
OMB Circular A-122 to develop a more detailed plan for the future and  
maintain documentation to support all expense allocations

Recommendations #4-5 Friends Research will repay DPH the #722 for  
equipment lease that incurred after the contract term. All OAPP  
expenditures are adequately documented with support.

Recommendations #6-7 Friends Research at one time did keep records on  
actual hours worked on different functions and found it to be very time  
consuming and not cost effective at all. We feel that the time cards filled  
out and signed by the employee, and approved by the supervisor are  
sufficient documentation for payroll expenditure.

We appreciate the opportunity to respond to this Audit.

Sincerely,

  
Jennifer Su  
Grants Manager

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